Emalahleni Municipality
Annual Financial Statements
for the year ended 30 June 2011

General Information

Nature of business and principal activities	Service delivery
Accounting Officer	Mr N J Kwepile
Chief Finance Officer (CFO)	Ms M Ludick
Registered office	37 Indwe Road LADY FRERE 5410
Bankers	Standard Bank
Auditors	Office of the Auditor General
Attorneys	Smith Tabata Kirchmanns
Contact numbers	Tel: (047) 878 0020 Fax: (047) 878 0112

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Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 52, in terms of Section 126 (1) of the Municipal Finance Managment Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any as disclosed in note 29 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this act.

Mr. N. J. Kwepile

Emalahleni Municipality
Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	9	247 775	247 775
Operating lease asset	49	64 010	10 381
Trade and other receivables from exchange transactions	10	181 249	821 770
Other receivables from non-exchange transactions	11	29 393 661	30 748 751
VAT receivable	12	9 491 665	3 069 768
Prepayments	8	7 204 904	7 204 905
Trade Receivables from Exchange Transactions	13	1 117 112	2 584 836
Cash and cash equivalents	14	36 215 465	40 382 078
		83 915 841	**85 070 264**
Non-Current Assets			
Property, plant and equipment	4	223 845 426	202 776 726
Intangible assets	5	690 480	690 480
		224 535 906	**203 467 206**
Total Assets		**308 451 747**	**288 537 470**
Liabilities			
Current Liabilities			
Finance lease obligation	15	95 505	103 937
Trade and other payables from exchange transactions	18	26 162 967	5 018 600
Consumer deposits	20	34 428	34 751
Unspent conditional grants and receipts	16	26 442 858	17 159 745
Provisions	17	8 823 336	9 791 512
		61 559 094	**32 108 545**
Non-Current Liabilities			
Finance lease obligation	15	-	95 505
Retirement benefit obligation	7	1 218 637	1 218 637
		1 218 637	**1 314 142**
Total Liabilities		**62 777 731**	**33 422 687**
Net Assets		**245 674 016**	**255 114 783**
Net Assets			
Accumulated surplus		245 674 016	255 114 783

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	23	1 232 178	3 065 433
Service charges	24	7 320 034	5 686 358
Rental of facilities and equipment		622 163	431 047
Interest received - outstanding receivables		2 198 167	365 013
Government grants & subsidies	25	52 480 011	72 935 857
Administration and management fees received		-	1 109 697
Commissions received		23 760	218 240
Other income	50	271 952	4 103 359
Interest received - external investments	31	1 588 615	2 386 558
Total Revenue		**65 736 880**	**90 301 562**
Expenditure			
Personnel	28	(26 640 872)	(3 194 034)
Remuneration of councillors	29	(6 661 323)	(5 933 633)
Administration and management fees paid	51	283 870	(38 822)
Finance costs	32	(20 798)	(46 784)
Debt impairment	30	(7 791 769)	(12 360 140)
Repairs and maintenance		(2 407 467)	(1 350 913)
Bulk purchases	34	(7 290 551)	(5 062 196)
General Expenditure	27	(24 694 324)	(9 369 283)
Operating grant expenditure		-	(3 842 953)
Total Expenditure		**(75 223 234)**	**(41 198 758)**
(Deficit) surplus for the year		**(9 486 354)**	**49 102 804**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	122 334 957	122 334 957
Adjustments		
Fundamental errors affecting net assets	83 695 802	83 695 802
Prior year adjustments	(18 780)	(18 780)
Balance at 01 July 2009 as restated	**206 011 979**	**206 011 979**
Changes in net assets		
Surplus for the year	49 102 804	49 102 804
Total changes	49 102 804	49 102 804
Balance at 01 July 2010	**255 114 781**	**255 114 781**
Changes in net assets		
Prior year adjustments	45 589	45 589
Net income (losses) recognised directly in net assets	45 589	45 589
Surplus for the year	(9 486 354)	(9 486 354)
Total recognised income and expenses for the year	(9 440 765)	(9 440 765)
Total changes	(9 440 765)	(9 440 765)
Balance at 30 June 2011	**245 674 016**	**245 674 016**

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		10 562 605	-
Grants		61 763 124	72 464 573
Interest income		1 588 615	2 751 571
Other receipts		(1 906 865)	10 177 634
		72 007 479	85 393 778
Payments			
Employee costs		(33 302 196)	(23 571 820)
Suppliers		(3 549 962)	-
Finance costs		(20 798)	(46 784)
Other payments		(18 174 093)	(40 112 499)
Other non-cash flow journals		(20 866 771)	-
		(75 913 820)	(63 731 103)
Net cash flows from operating activities	35	**(3 906 341)**	**21 662 675**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(156 335)	(30 923 367)
Cash flows from financing activities			
Finance lease payments		(103 937)	(74 869)
Net increase/(decrease) in cash and cash equivalents		**(4 166 613)**	**(9 335 561)**
Cash and cash equivalents at the beginning of the year		40 382 078	49 717 643
Cash and cash equivalents at the end of the year	14	**36 215 465**	**40 382 082**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.
Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the municipality, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

1.1 Investment property (continued)

The municipality elected to make use of the transtional provisions, contained in Directive 4, regarding the Standard of GRAP on Investment Property, issued by the Accounting Standards Board, whereby the municipality is not required to measure investment properties for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment Property.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Accounting Policies

1.2 Property, plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2009. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 4. The transitional provision expires on 30 June 2011.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),

1.2 Property, plant and equipment (continued)

- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.3 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to other comprehensive income and accumulated in the revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to other comprehensive income as a decrease to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and to other comprehensive income under (a). If a revaluation is necessary, all assets of that class are revalued.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

1.4 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

The municipality elected to make use of the transtional provisions, contained in Directive 4, regarding the Standard of GRAP on Intangible assets, issued by the Accounting Standards Board, whereby the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets.

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

1.5 Financial instruments (continued)

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit.

Loans to managers and employees

These financial assets are classified as loans and receivables.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is the initial carrying amount, less repayments, plus interest.

1.5 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

Accounting Policies

1.5 Financial instruments (continued)

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability.The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Any contingent rents are expensed in the period they are incurred.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

The municipality elected to make use of the transtional provisions, contained in Directive 4, regarding the Standard of GRAP on Inventories, issued by the Accounting Standards Board, whereby the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories.

1.8 Non-current assets held for sale (and) (disposal groups)

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.10 Share capital / contributions from owners

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to statement of financial position date where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in the statement of financial performance over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

1.11 Employee benefits (continued)

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. An annual charge to income is made to cover these liabilities.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2009. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

1.13 Revenue from exchange transactions (continued)

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.15 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.9. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote;
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.21 Irregular expenditure

IIrregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Use of Estimates

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 Presentation of Currency

These annual financial statements are presented in South African Rand.

1.24 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.25 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

1.26 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.27 Going Concern

The financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the entity. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the entity's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The impact of this standard is currently being assessed.

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the entity.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The impact of this standard is currently being assessed.

GRAP 24: Presentation of Budget Information in the Financial Statements

2. New standards and interpretations (continued)

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The impact of this standard is currently being assessed.

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods but are not relevant to its operations:

GRAP 103: Heritage Assets

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

2. New standards and interpretations (continued)

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of this standard is currently being assessed.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

3. Investment property

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	-	-

Reconciliation of investment property - 2010

	Opening balance	Total
Investment property	-	-

Transitional provisions

The municipality elected to make use of the transtional provisions, contained in Directive 4, regarding the Standard of GRAP on Investment Property, issued by the Accounting Standards Board, whereby the municipality is not required to measure investment properties for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment Property.

Investment properties have been identified, although the municipality is still engaged in the evaluation (measuring) process of these properties.

The municipality will be fully compliant with GRAP 16, Investment properties, by 30 June 2012.

4. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	48 145 598	-	48 145 598	48 145 924	-	48 145 924
Buildings	69 367 563	-	69 367 563	69 367 562	-	69 367 562
Infrastructure	75 757 537	-	75 757 537	55 199 426	-	55 199 426
Other property, plant and equipment	1 850 789	-	1 850 789	1 339 875	-	1 339 875
Capital work in progress	28 723 939	-	28 723 939	28 723 939	-	28 723 939
Total	**223 845 426**	**-**	**223 845 426**	**202 776 726**	**-**	**202 776 726**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Other changes, movements	Total
Land	48 145 924	-	(326)	48 145 598
Buildings	69 367 562	127 700	(127 699)	69 367 563
Infrastructure	55 199 426	20 491 560	66 551	75 757 537
Other property, plant and equipment	1 339 875	384 348	126 566	1 850 789
Capital work in progress	28 723 939	-	-	28 723 939
	202 776 726	**21 003 608**	**65 092**	**223 845 426**

Reconciliation of property, plant and equipment - 2010

4. Property, plant and equipment (continued)

	Opening balance	Additions	Transfers	Other changes, movements	Total
Land	10 450 000	66 914	-	37 629 010	48 145 924
Buildings	16 762 392	432 919	-	52 172 251	69 367 562
Infrastructure	34 147 543	80 398	6 936 431	14 035 054	55 199 426
Community	4 547 348	-	-	(4 547 348)	-
Other property, plant and equipment	3 620 636	1 178 717	-	(3 459 478)	1 339 875
Capital work in progress	6 936 431	28 723 939	(6 936 431)	-	28 723 939
	76 464 350	**30 482 887**	**-**	**95 829 489**	**202 776 726**

Capitalised expenditure

	2011	2010
Capital work in progress	28 723 939	28 723 939

Assets subject to finance lease (Net carrying amount)

	2011	2010
Other property, plant and equipment	368 860	368 860

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The municipality had early adopted the high capacity reporting framework on 1 July 2007 and took advantage of the transitional provisions contained in GAMAP 17, Property, Plant and Equipment, as well as the exemptions regarding GAMAP 17 and IAS 36, Impairment of Assets, as contained in the Government Gazette 30013 of 29 June 2007. Furthermore, the municpality elected to make use of the transitional provisions i.t.o. GRAP 17, Property, Plant and Equipment, contained in Directive 4, on implementation thereof at 1 July 2008. The transitional provisions of GAMAP 17 and GRAP 17 (Directive 4) runs concurrently. The transitional provisions for GAMAP 17 expired on 30 June 2010 and the transitional provisions for GRAP 17 (Directive 4) expires on 30 June 2012.

The municipality has identified and recognised all property, plant and equipment.

Carrying amounts of property, plant and equipment are reflected at provisional amounts. The municipality is in the process of measuring / valuing all their property, plant and equipment. The electrical infrastructure assets as well as municipal land and buildings (incorporating community assets) have been valued and included in the fixed asset register, however the useful lives of certain of these assets still need to be estimated.

Due to the provisional carrying amounts and useful lives of assets that still need to be estimated, no depreciation has been calculated.

The municipality will be fully compliant with GRAP 17 by 30 June 2012.

Other changes and movements relate to identified assets that were taken on to the fixed asset register at revalued amounts. The prior year values of these assets were written out at carrying value. These adjustments were made against the Accumulated surplus.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

5. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	690 480	-	690 480	690 480	-	690 480

Reconciliation of intangible assets - 2011

	Opening balance	Total
Computer software	690 480	690 480

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Total
Computer software	-	690 480	690 480

Transitional provisions

Intangible assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, the carrying amount of Intangible assets was recognised at provisional amounts.

The useful lives of intangible assets have not been asessed yet, therefore no amortisation has been calculated

The municipality will be fully compliant with GRAP 102, Intangible assets, by 30 June 2012.

6. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2011

	Loans and receivables	Non-financial assets	Total
Inventories	-	247 775	247 775
Operating lease asset	-	64 010	64 010
Trade and other receivables from exchange transactions	181 249	1 117 112	1 298 361
Other receivables from non-exchange transactions	895 693	28 497 968	29 393 661
Cash and cash equivalents	36 215 465	-	36 215 465
Intangible assets	-	690 480	690 480
Property, plant and equipment	-	223 845 426	223 845 426
VAT	-	9 491 665	9 491 665
Prepayments	-	7 204 904	7 204 904
	37 292 407	**271 159 340**	**308 451 747**

2010

	Loans and receivables	Non-financial assets	Total
Inventories	-	247 775	247 775
Operating lease assets	-	10 381	10 381
Trade & other receivables from exchange transactions	821 770	2 584 836	3 406 606
Other receivables fron non-exchange transactions	1 160 332	29 588 419	30 748 751
Cash & cash equivalents	40 382 078	-	40 382 078
Intangible assets	-	690 480	690 480
Property, plant & equipment	-	202 776 726	202 776 726
VAT	-	3 069 768	3 069 768
Prepayments	-	7 204 905	7 204 905
	42 364 180	**246 173 290**	**288 537 470**

7. Employee benefit obligations

Defined benefit plan

The plan is a post employment defined medical benefit plan.

Post retirement medical aid plan

These liabilities are in respect of 7 active members and 2 pensioners. One of the 7 active members was over the retirement age as at 30 June 2010 and it was assumed that she will retire immediately. The municipality makes monthly contributions for health care arrangements to the following medical aid schemes: Bonitas, LA Health, Key Health, Hosmed and SAMWU Medical Aid.

The PRMA subsidy for 2010 was based on a maximum subsidy of R2 850.80. The maximum amount is based on a maximum subsidy of R2 850.80. The maximum amount is based on a 10.5% increase of the 2009 maximum amount of R2 579.91. The 10.5% increase is ito the SALGBC Salary & Wages Collective Agreement (Circular no 08/2009)

2010: Pensionners & employees over 55 who have medical aid as of 1 July 2003 receive a 60% subsidy subject to the maximum amount. Employees over 50 who have medical aid as at 1 July 2003 receive a 50% subsidy subject to the maximum amount. (2009: the subsidy payable towards pensioners contribution was 70%)

2010: Normal retirement age of employees is 65 years for males and 60 years for females. The average age of employees has increased from 45.2 years in 2009 to 62.8 years in 2010 as a result of a change in the subsidy policy whereby only employees over 50 years as at 1 July 2003 are entitled to PRMA.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

7. Employee benefit obligations (continued)

The number of members eligible for a PRMA benefit has decreased from 113 members in 2009 to 9 members in 2010, resulting in a significant decrease in the PRMA obligation for 2010.

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(16 738 817)	(16 738 817)
Adjustment of provision for Post-retirement medical aid	15 520 180	15 520 180
	(1 218 637)	**(1 218 637)**

The plan is a post employment defined medical benefit plan (Post-retirement medical assistance - PRMA) and the last valuatio was done by Deloitte & Touche Actuarial & Insurance Solutions usring the Projected Unit Credit Method.

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes: Bonitas, LA Health, Key Health and SAMWU Medical Aid.
In-service and continuation members will receive a post-retirement subsidy of 70% of the contribution payable. Widow(er)s of eligible in-service members will receive a 60% subsidy on and after the death in-service of an employee. Children are not entitled to ongoing post-employment medical aid subsidies.

As at the time of the submission of the financial statements as at 31 August 2011, there was no actuarial valuation available to support the carrying value of the Defined Benefit Medical Aid Obligation. No changes have been processed to the Defined Benefit Medical Aid plan obligation in the current year in order to reflect any changes in the obligation for the municipality.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	1 218 637	16 738 817
Adjustment of post retirement benefit obligation	-	(15 520 180)
	1 218 637	**1 218 637**

Net expense recognised in the statement of financial performance

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	1,00 %	1,00 %
Consumer price inflation	4,00 %	4,20 %

IInvestment returns 2010: The entire zero-coupon South African Bond Yield curve as at 30 June 2009 and 30 June 2008 was used in the valuation.

Medical inflation: 2.5% above the Consumer Price Index (CPI) for both years.
Normal retirement age: 65 years for males and 60 for females.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

8. Prepayments

The municipality utilised own funds on certain of its conditional grant projects. The expenses incurred are recoverable from the different spheres of government, within the next financial year.

Grants recoverable		
Municipal Infrastructure Grant	6 157 531	6 157 532
Library Grant	29 405	29 405
Housing Grant	1 017 968	1 017 968
	7 204 904	**7 204 905**

9. Inventories

Consumable stores	247 775	247 775

The carrying value of stock is disclosed at cost.

At the time of the submission of the financial statements as at 31st August 2011, the balance of the inventory as per the financial statements did not agree to the year end inventory count.

10. Trade and other receivables from exchange transactions

Trade debtors	171 289	568 608
Recoverable fruitless and wasteful expenditure	76 116	76 116
Provision for debt impairment	(76 116)	(76 116)
Other receivables	9 960	253 162
	181 249	**821 770**

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(76 116)	-
Provision for impairment	-	(76 116)
	(76 116)	**(76 116)**

The creation and release of provision for impaired receivables have been included in operating expenses in the statement of financial performance (note 30). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Trade and other receivables from exchange transactions are classified as financial assets: loans and receivables. No amortisation was applied. Fair value is estimated at cost.

11. Other receivables from non-exchange transactions

Rates Income (net of impairment)	858 584	1 123 223
Chris Hani agency account	28 497 968	29 588 419
Other receivables	37 109	37 109
	29 393 661	**30 748 751**

The municipality has raised a debtor for Chris Hani Districit Municipality. This debtor relates to the agency agreement between Emalahleni Municipality and Chris Hani District Municipality. This amount has not been confirmed by Chris Hani District Municipality at year end.

Other receivables consist of advances and study loans made to employees and managers. The debt bears no interest and is repayable within one year. At the time of the submission of the financial statements on 31st August 2011, no further information was available to support the values outstanding .

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
Amounts due by managers and employees		
Mayor (for difference in telephone allowance)	8 574	8 574
Housing officer	17 898	17 898
Employees (existing study loans)	10 637	10 637
	37 109	**37 109**

12. VAT receivable

VAT	9 491 665	3 069 768

Amounts payble and receivable to/from SARS relating to VAT have been off-set. These amounts are payable or receivable to/from the same entity (SARS) that also off-sets amounts payable and receivable to the municipality.

VAT is claimable on the receipts basis. VAT claimed from SARS only once payment is made on a tax invoice.

13. Accounts Receivable from Exchange Transactions

Gross balances		
Electricity	1 613 606	1 250 316
Refuse	17 499 456	15 108 448
Housing rental	221 166	175 675
Other	4 093 947	4 194 236
	23 428 175	**20 728 675**
Less: Provision for bad debts		
Electricity	(1 562 898)	(1 071 572)
Refuse	(16 985 571)	(13 361 022)
Housing rental	(218 728)	-
Other	(3 543 866)	(3 711 245)
	(22 311 063)	**(18 143 839)**
Net balance		
Electricity	50 708	178 744
Refuse	513 885	1 747 426
Housing rental	2 438	175 675
Other	550 081	482 991
	1 117 112	**2 584 836**
Electricity		
Current (0 -30 days)	746	36 028
31 - 60 days	1 089	38 768
61 - 90 days	1 424	52 719
91 - 120 days	965	16 867
121 - 365 days and older	46 484	1 105 934
	50 708	**1 250 316**
Refuse		
Current (0 -30 days)	7 561	237 711
31 - 60 days	11 033	226 857
61 - 90 days	14 430	222 606
91 - 120 days	9 784	190 674
121 - 365 days and older	471 077	14 230 600
	513 885	**15 108 448**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

13. Accounts Receivable from Exchange Transactions (continued)

Housing rental		
current - 365 days and older	2 438	175 675

Other		
Current (0 -30 days)	102 411	-
31 - 60 days	149 442	-
61 - 90 days	195 460	-
91 - 120 days	102 768	482 991
	550 081	**482 991**

Reconciliation of provision for impairment of Trade Receivables from Exchange Transactions

Opening balance	(27 068 494)	(22 200 315)
Provision for impairment	(7 791 769)	(12 284 024)
Amounts written off as uncollectible	-	7 415 845
	(34 860 263)	**(27 068 494)**

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6 815	6 815
Bank balances	50 323 407	14 478 732
Short-term deposits	(11 945 487)	25 896 531
Other cash and cash equivalents	(2 169 270)	-
	36 215 465	**40 382 078**

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
Standard Bank - Current Account - 082-665-958	6 915 554	13 778 803	6 682 509	13 778 803
Standard Bank - Current Account - 082-630-631	520 452	946 813	491 404	170 618
First National Bank - Current Account - 620-4898-6428	124 388	529 311	172 619	529 311
Total	**7 560 394**	**15 254 927**	**7 346 532**	**14 478 732**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

15. Finance lease obligation

Minimum lease payments due		
- within one year	105 460	133 818
- in second to fifth year inclusive	-	103 112
	105 460	236 930
less: future finance charges	(9 951)	(37 488)
Present value of minimum lease payments	**95 509**	**199 442**

Present value of minimum lease payments due		
- within one year	95 509	103 937
- in second to fifth year inclusive	-	95 505
	95 509	**199 442**

Non-current liabilities	-	95 505
Current liabilities	95 505	103 937
	95 505	**199 442**

The lease term of the finance lease is 5 years and the average effective borrowing rate is 11.25%. Loan repayments are escalated by 10% annually.

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grants	4 451 606	4 451 606
Other grants	19 579 495	10 296 382
Prepaid electricity sold - unused	61 757	61 757
Electricity grant	2 350 000	2 350 000
	26 442 858	**17 159 745**

Movement during the year

Balance at the beginning of the year	17 159 745	20 498 299
Additions during the year	-	26 472 241
Income recognition during the year	-	(34 539 111)
Balances transferred to current assets	-	7 182 085
Income accrued - transferred	-	(2 455 652)
Prepaid electricity sold - unused	-	1 883
Movement for the year	9 283 113	- [1]
	26 442 858	**17 159 745**

These amounts are invested in a ring-fenced investment until utilised.

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

17. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Utilised during the year	Total
Environmental rehabilitation	9 450 000	(968 176)	8 481 824
Provision for pro-rata bonuses	341 512	-	341 512
	9 791 512	**(968 176)**	**8 823 336**

Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Environmental rehabilitation	9 450 000	-	9 450 000
Provision for pro-rata bonuses	253 419	88 093	341 512
	9 703 419	**88 093**	**9 791 512**

Transitional provisions

Provisions recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, the provision for landfill site rehabilitation was recognised at provisional amounts.

The provision for the rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. The municipality is currently dumping waste at three sites in Indwe, Lady Fere and Dordrecht. All three of the current landfill sites are to be closed due to the fact that the sites are not specifically demarcated for waste disposal. Before any landfill site can be closed it needs to be permitted as per the Department of Water Affairs and Forestry's "Minimum Requirements for Waste Disposal by Landfill", Second Edition 1998, Chapter 2.3.4. None of the three aforementioned landfill sites has been permitted yet.

Due to the fact that all three of the landfill sites have to be closed within the short term, the full provision for landfill site rehabilitation has been allocated to current provisions.

The valuation of the provision for the landfill site rehabilitation has been performed by Munitech, a company of engineers which has specialist experience in the closure of landfill sites.

During the current financial year the district municipality, Chris Hani, has allocated funds to Emalahleni to demarcate the legal waste disposal areas. At year-end the demarcation process has not been started yet.

An adjustment was made to the comparative amount for the provision for landfill site rehabilitation - refer to note 39.

18. Trade and other payables from exchange transactions

	2011	2010
Trade payables	22 640 747	1 496 379
Accrued leave	1 066 568	1 066 568
Other payables	2 455 652	2 455 653
	26 162 967	**5 018 600**

The fair value of trade and other payables approximates their carrying amounts.

19. VAT payable

Amounts payble and receivable to/from SARS relating to VAT have been off-set. These amounts are payable or receivable to/from the same entity (SARS) that also off-sets amounts payable and receivable to the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

19. Trade and other payables from exchange transactions (continued)

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

20. Consumer deposits

Electricity	34 428	34 751

21. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2011

	Financial liabilities at amortised cost	Fair value through surplus or deficit - held for trading	Total
Finance lease obligation	-	95 505	95 505
Trade & other payables from exchange transaction	25 096 399	1 066 568	26 162 967
Consumer deposits	-	34 428	34 428
Unspent conditional grants and receipts	26 442 858	-	26 442 858
Provisions	-	8 823 336	8 823 336
Retirement benefit obligation	-	1 218 637	1 218 637
	51 539 257	**11 238 474**	**62 777 731**

2010

	Financial liabilities at amortised cost	Fair value through surplus or deficit - held for trading	Total
Finance lease obligation	-	199 442	199 442
Trade & other payables from exchange transactions	3 952 032	1 066 568	5 018 600
Consumer deposits	-	34 751	34 751
Unspent conditional grants and receipts	17 159 745	-	17 159 745
Provisions	-	9 791 512	9 791 512
Retirement benefit obligation	-	1 218 637	1 218 637
	21 111 777	**12 310 910**	**33 422 687**

22. Revenue

	2011	2010
Property rates	1 232 178	3 065 433
Service charges	7 320 034	5 686 358
Rental of facilities & equipment	622 163	431 047
Interest received – trading	2 198 167	365 013
Government grants & subsidies	52 480 011	72 935 857
	63 852 553	**82 483 708**

	2011	2010
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	7 320 034	5 686 358
Rental of facilities & equipment	622 163	431 047
Interest received – trading	2 198 167	365 013
	10 140 364	**6 482 418**

Figures in Rand	2011	2010

22. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	1 232 178	3 065 433
Transfer revenue		
Levies	52 480 011	72 935 857
	53 712 189	**76 001 290**

23. Property Rates

Rates received

Rateable properties	4 199 200	4 252 422
Less: Income forgone	(2 967 022)	(1 186 989)
	1 232 178	**3 065 433**

Valuations

All properties	748 640 332	748 640 332

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate is applied to property valuations to determine assessment rates, which vary according to the type of property. The assessment rates are as follows: Residential properties- 0.0059, Undeveloped land - 0.00885, Institutional properties - 0.0059, Business properties - 0.00885, Government properties - 0.00885, Agricultural land / properties - 0.001475, Public service properties - 0.001475 and Public benefit properties - 0.001475. The following rebates are granted - the first R15 000 of residential properties are not rateable, 75% of agricultural land are not rateable and 30% of public service infrastructure is not rateable.

Rates are levied on an annual basis with the final date for payment being 30 June 2011 (30 June 2010). Interest at prime plus 1% per annum (2010: 1%), is levied on rates outstanding one month after due date.

The new general valuation will be implemented on 01 July 2013.

24. Service charges

Sale of electricity	4 955 754	3 310 595
Refuse removal	2 364 280	2 375 763
	7 320 034	**5 686 358**

25. Government grants and subsidies: Revenue

Equitable share	51 329 916	42 105 211
Municipal Infrastructure Grant	95	26 470 400
Other Government Grants and subsidies	1 150 000	4 360 246
	52 480 011	**72 935 857**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

26. Other revenue

Administration and management fees received - third party	-	1 109 697
Commissions received	23 760	218 240
Sundry income	271 952	4 103 359
	295 712	**5 431 296**

Included in sundry income is an amount of R3 731 284 which relates to VAT on the MIG grant which accrued to the municipality in terms of MFMA Circular number 51.

27. General expenses

Advertising	94 173	147 028
Auditors remuneration	2 307 627	1 017 484
Bank charges	152 768	134 122
Cleaning	124 843	14 332
Consulting and professional fees	1 466 697	824 966
Consumables	85 250	184 738
Entertainment	26 479	14 791
Insurance	460 716	417 074
Conferences and seminars	370 595	295 836
Lease rentals on operating lease	747 779	198 820
Marketing	114 313	16 482
Magazines, books and periodicals	10 300	12 701
Fuel and oil	633 769	673 568
Postage and courier	13 890	9 546
Printing and stationery	546 155	241 182
Protective clothing	118 293	5 832
Security (Guarding of municipal property)	566 873	505 786
Software expenses	201 170	-
Subscriptions and membership fees	229 681	209 546
Telephone and fax	692 797	1 043 160
Transport and freight	436 703	172 950
Training	645 629	352 135
Travel - local	2 445 301	843 892
Electricity	149 834	326 971
Expenditure - government grants	11 050 698	4 314 237
Other	1 001 991	1 235 057
	24 694 324	**13 212 236**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

28. Employee related costs

Basic	17 548 486	(3 292 897)
Bonus	1 301 513	669 315
Medical aid	828 851	633 361
UIF	134 448	92 930
SDL	202 172	169 771
Leave pay	582 799	531 012
Pension	2 840 020	1 834 215
Travel, motor car, accommodation, subsistence and other allowances	988 752	676 399
Overtime payments	823 717	857 881
Acting allowances	51 049	(59 245)
Transport allowance	733 512	632 890
Housing benefits and allowances	451 993	307 842
Industrial Council contributions	6 722	4 527
Telephone allowance	146 838	135 708
Standby allowance	-	325
	26 640 872	**3 194 034**

Employee costs for the current financial year includes the effects of a revaluation of the provision for post-retirement medical aid resulting in a decrease of R15 520 180 in the Defined Benefit Obligation (note 7) and total employee costs.

Remuneration of municipal manager

Annual Remuneration	489 068	516 924
Travel, motor car, accommodation, subsistence and other allowances	160 746	202 770
Performance and other bonuses	56 229	-
Contributions to UIF, Medical and Pension Funds	189 687	117 638
	895 730	**837 332**

Remuneration of chief finance officer

Annual Remuneration	465 373	457 873
Travel, motor car, accommodation, subsistence and other allowances	132 719	203 094
Performance and other bonuses	44 696	-
Contributions to UIF, Medical and Pension Funds	137 956	100 194
	780 744	**761 161**

Remuneration of technical services manager

Annual Remuneration	414 775	402 209
Travel, motor car, accommodation, subsistence and other allowances	163 200	157 417
Performance Bonuses	35 850	-
Contributions to UIF, Medical and Pension Funds	158 070	115 437
	771 895	**675 063**

Remuneration of corporate services manager

Annual Remuneration	414 775	402 854
Travel, motor car, accommodation, subsistence and other allowances	163 200	211 379
Performance and other bonuses	50 283	-
Contributions to UIF, Medical and Pension Funds	158 070	117 719
	786 328	**731 952**

Remuneration of community services manager

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

28. Employee related costs (continued)

Annual Remuneration	450 775	117 229
Travel, motor car, accommodation, subsistence and other allowances	127 200	21 000
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	184 531	30 537
	762 506	**168 766**

Remuneration of IPED manager

Annual Remuneration	414 775	402 482
Travel, motor car, accommodation, subsistence and other allowances	163 200	153 926
Performance Bonuses	11 640	-
Contributions to UIF, Medical and Pension Funds	158 070	118 656
	747 685	**675 064**

Remuneration of strategic manager

Annual Remuneration	414 775	404 545
Travel, motor car, accommodation, subsistence and other allowances	163 200	278 430
Performance and other bonuses	55 870	-
Contributions to UIF, Medical and Pension Funds	158 070	113 101
	791 915	**796 076**

29. Remuneration of councillors

Mayor	575 242	573 760
Executive Committee Members	1 133 010	1 203 918
Speaker	462 602	462 602
Councillors	4 300 424	3 693 353
	6 471 278	**5 933 633**

In-kind benefits

The Mayor and Speaker are full-time. The Mayor and Speaker are provided with offices and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle and a driver for official duties.

2010: The Councillors Remuneration includes a reversal of an over provision of R200 143 in the prior year in terms of a provision in 2009 for back pay.

30. Debt impairment

Debt impairment	7 791 769	12 284 024
Contributions to debt impairment provision	-	76 116
	7 791 769	**12 360 140**

31. Investment revenue

Interest revenue		
Bank	1 588 615	2 386 558

32. Finance costs

Interest cost - PRMA liability	20 798	46 784

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

33. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	564 997	343 996
Rental of equipment	57 166	87 051
	622 163	**431 047**

34. Bulk purchases

Electricity	7 290 551	5 062 196

35. Cash (used in) generated from operations

(Deficit) surplus	(9 486 354)	49 102 804
Adjustments for:		
Debt impairment	7 791 769	12 360 140
Movements in operating lease assets and accruals	(53 629)	(10 381)
Movements in retirement benefit assets and liabilities	-	(15 520 180)
Movements in provisions	(968 176)	88 093
Other non-cash items (journals against Acc Surplus)	(20 866 774)	-
Changes in working capital:		
Inventories	-	(20 582)
Trade and other receivables from exchange transactions	640 521	(534 672)
Other receivables from non-exchange transactions	1 355 090	(1 967 128)
Consumer debtors	(6 324 045)	(7 629 524)
Prepayments	1	(7 204 905)
Trade and other payables from exchange transactions	21 144 363	1 499 207
VAT	(6 421 897)	(5 157 993)
Unspent conditional grants and receipts	9 283 113	(3 338 554)
Consumer deposits	(323)	(3 650)
	(3 906 341)	**21 662 675**

Figures in Rand	2011	2010

36. Commitments

Authorised capital expenditure

Already contracted for but not yet completed		
• Property, plant and equipment	-	18 682 694

2010: This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, and existing cash resources.

2011: At the time of the submission of the financial statements on 31st August 2011, no information was available regarding the commitments of the municipality. No disclosure for commitments was therefore made as at 30 June 2011.

Operating leases – as lessee (expense)

Minimum lease payments due		
- within one year	36 648	101 619
- in second to fifth year inclusive	-	36 648
	36 648	**138 267**

Operating lease payments represent rentals payable by the municipality for certain of its buildings and office equipment. Leases are negotiated for an average term of one to three years. Certain leases have fixed monthly payments and others are escalating at 12% per year. No contingent rent is payable.

Operating leases – as lessor (income)

Minimum lease payments due		
- within one year	370 608	317 296
- in second to fifth year inclusive	616 768	873 367
- later than five years	422 358	536 367
	1 409 734	**1 727 030**

Certain of the municipality's properties are leased to third parties to generate rental income. Leases receipts escalate annually on average by 10%. Lease agreements are non-cancellable and have terms from 3 to 9 years. There are no contingent rents receivable.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

37. Contingencies

2010: Various litigation matters are in the process and the municipality's lawyers are dealing with them on behalf of the municipality. The following is a breakdown of the matters:

- George vs Emalahleni municipality. The matter relates to an unfair dismissal of an employee. The amount claimed is approximately R50 000.
- M.P Hoco vs Emalahleni municipality. The matter relates to a dispute over the payment to the plaintiff, Mr Hoco, by the municipality for the construction of certain fencing completed by the plaintiff on the municipality's behalf. The amount claimed is R81,892.
- AL van Heerden vs Emalahleni municipality. The matter relates to a dispute over the municipality's right to mine sand at the plaintiff's farm. The municipality had an agreement with the farm's former owner. The amount of the claim is not known yet.
- Emalahleni muncipality vs Ikamva Construction. The defendant failed to complete a construction project. The amount claimed is R358,820.

The outcome of none of the above matters can be reliably estimated.

The municipality is in the process of assessing the performance of its managers in order to establish whether managers are eligble for performance bonuses. Ats at the time of submission of the financial statements as at 31 August 2011, no further information was available to support the calculation of the provision for performance bonuses, therefore no provision for performance bonusses was raised as at 30 June 2011. It is anticipated that if performance bonuses would be awarded, it would be more or less in line with the 2009 bonus payout of R250,000.

38. Related parties

No related party transactions.

Figures in Rand	2011	2010

39. Prior period errors / adjustments

The result of the adjustments are as follows:

Adjustments of R12 133 684 were made to the opening balance of PPE for the effect of prior year errors identified in the current financial year,

Statement of financial position		
Property, plant and equipment	-	(12 133 684)

40. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.

At year end, financial instruments exposed to interest rate risk were as follows:

Financial instrument		
Short term deposits	(14 114 757)	25 896 531
Finance leases	(95 505)	(199 442)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Customers cannot be refused basic services and so constitutes a serious credit risk. A credit control policy is in place so as to minimise the risk but is all dependant on the political will for execution to control the credit risk. Large consumers may have to produce large guarantees and / or deposits to minimise the credit risk.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2011**	**2010**
Short term deposits	(14 114 757)	25 896 531
Trade and other receivables	23 164 145	36 762 056

41. Going concern

We draw attention to the fact that at 30 June 2011, the municipality had accumulated deficits of 245 674 016 and that the municipality's total liabilities exceed its assets by 245 674 016.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding from various spheres of Government for the ongoing operations of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

42. Events after the reporting date

There are no events to report upon.

43. Fruitless and wasteful expenditure

2010: A payment was made to a fraudster posing as a creditor of the municipality. The issue was reported to the police. An internal investigation was done and there was no need for any disciplinary action against employees.

44. In-kind donations and assistance

None.

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	-	165 315
Amount paid - current year	-	(165 315)
	-	**-**

Audit fees

Current year fee	2 307 627	1 017 484
Amount paid - current year	(2 307 627)	(1 017 484)
Closing balance	**-**	**-**

PAYE and UIF

Current year payroll deductions	-	3 972 097
Amount paid - current year	-	(3 972 097)
	-	**-**

A summary of total PAYE and UIF expenditure for the current financial year was not available for the year end 30 June 2011 at the time of the submission of the financial statements.

Pension and Medical Aid Deductions

Current year payroll deductions	3 668 871	4 887 624
Amount paid - current year	(3 668 871)	(4 887 624)
	-	**-**

Figures in Rand	2011	2010

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	9 491 665	3 069 768

Net VAT output payables and VAT input receivables are shown in notes 12 and 19.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:-

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
B Komani	-	48 408	48 408

30 June 2010	Outstanding less than 90 days	Outstanding more than 90 days	Total
S.M. Limba	-	11 065	11 065

46. Actual operating expenditure versus budgeted operating expenditure

47. Actual capital expenditure versus budgeted capital expenditure

48. Reconciliation between budget and statement of financial performance

Reconciliation		
Net income/loss for the period	(9 440 775)	49 102 800
Property rates	-	1 234 567
Other income	-	3 378 229
Debt impairment	-	9 284 173
Employee Costs	-	(8 404 322)
Government grants	-	(4 330 535)
Repairs and maintenance	-	(2 338 375)
Operating grant expenditure	-	(21 623 812)
General expenditure	-	(17 758 583)
General over/ under spending	987 514	-
Net surplus as per budget	**(8 453 261)**	**8 544 142**

49. Operating lease asset (accrual)

50. Other income

Other income	271 952	4 103 359

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

51. Administrative expenditure

Administration and management fees - third party	(283 870)	38 822

52. Auditors' remuneration

Fees	2 307 627	1 017 484

Annotations

1. Movement for Grants:

At the time of the AFS, the grants schedules received from Gerrie did not balance to the TB, therefore I was unable to insert the movements. Balancilg figure was shown as movements in grants